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DATE September 15, 1954

COPY NO. 7

OPERATIONS COORDINATING BOARD

Washington, D.C.

PROGRESS REPORT ON NSC 164/1 (AUSTRIA)

REFERENCE:

NSC Action No. 932

OCB FILE NO.

22

NSC review(s) completed

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

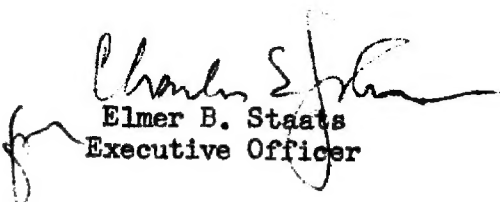
December 29, 1954

MEMORANDUM FOR THE OPERATIONS COORDINATING BOARD

SUBJECT: Progress Report on NSC 164/1 (Austria)

Attached is the second Progress Report on the implementation of NSC 164/1, covering the period from January 20, 1954 through August 24, 1954, as approved by the Operations Coordinating Board on September 15, 1954.

The previous draft of this report dated September 3, 1954 is obsolete and may be destroyed in accordance with the security regulations of your agency.


Elmer B. Staats
Executive Officer

Attachment:

OCB Executive Officer Memo to Mr. Lay, NSC, dated 9/17/54, subject as above, with attachment as listed.

OCB File No. 22

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when removed from attachments.

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

September 17, 1954

MEMORANDUM FOR: Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

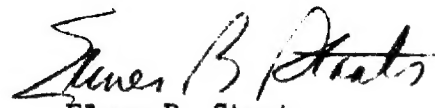
SUBJECT: Progress Report on NSC 164/1 (Austria).

REFERENCE: Memorandum for the Executive Secretary, NSC, dated
October 14, 1953.

On October 14, 1953 the President approved NSC 164/1, "U. S. Objectives and Policies with Respect to Austria," and designated the Operations Coordinating Board as the coordinating agency.

Attached hereto is the second progress report on the implementation of NSC 164/1, covering the period from January 20, 1954 through August 24, 1954. The report was approved by the Operations Coordinating Board on September 15, 1954.

The Board wishes to bring to the attention of the National Security Council two official U. S. actions since August 24. Twenty-five thousand metric tons of feed corn were given the Austrian Government as a "gift from the American people" for distribution to needy farmers in the areas stricken by the recent Danubian floods. In addition, the U. S. released 800 million Austrian schillings in counterpart funds for flood relief.


Elmer B. Staats
Executive Officer

Attachment:

Progress Report on NSC 164/1,
dated September 15, 1954.

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September 15, 1954

PROGRESS REPORT ON NSC 164/1
U. S. OBJECTIVES AND POLICIES WITH RESPECT TO AUSTRIA

(Policy approved by the President, October 14, 1953)

A. SUMMARY OF MAJOR ACTIONS

1. A Western offer at the Berlin Conference in February to sign an Austrian treaty including the Soviet versions of the unagreed Articles was not accepted by the Soviets and was subsequently withdrawn. The Western powers and Austria rejected Soviet proposals to conclude a treaty providing for (1) retention of occupation forces in the zones; (2) withdrawal of occupation forces from Vienna, and (3) Austria's neutralization.

2. Following coordination with the West, Austria proposed on July 22, a five power committee in Vienna to consider alleviation of occupation burdens. The Western Governments accepted this Austrian proposal but it was rejected by the Soviet Government which proposed instead the resumption of treaty negotiations based presumably on their Berlin proposals.

3. In unilateral efforts to alleviate Austria's burdens, the U.S. has (1) turned over to Austrian control the Linz and Salzburg stations of our radio network; (2) agreed in principle to an increase in the transportation rates paid by us in Austria; and (3) obtained a Congressional appropriation of \$1,000,000 for the construction of dependents' housing in Vienna. In addition, emergency assistance has been provided to relieve the situation caused by the July floods.

4. Soviet threats against the Austrian Government in May were countered by airing the matter in the Allied Council on U.S. initiative. Except for the reestablishment of Soviet zonal border checks on two occasions, and occasional stoppage of German tourists in the Soviet zone, Soviet threats have not been carried out.

5. As a further step toward meeting its obligations for trade liberalization under the OEEC code, in June 1954 Austria raised the level of imports from the EPU area which are not subject to quantitative restrictions from 50% to 75%.

6. On U.S. initiative tripartite agreement has been reached on proposals for planning for the emergency utilization of Austrian manpower. We are awaiting Austrian reaction to these proposals.

(For detailed development of NSC courses of action, see ANNEX "A").

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B. OPERATIONAL CONSIDERATIONS BEARING ON POLICY

7. In the opinion of the Working Group on Austria, NSC 164/1 remains effective, timely and capable of continuing implementation.

C. EMERGING PROBLEMS AND FUTURE ACTIONS

8. Study is being given to the likelihood that we may be faced in the near future with the problem of modifying our position on the Austrian treaty negotiations. The Austrians are expected to be increasingly resentful of any refusal to negotiate and British and French support of the Austrian position is anticipated. This study will give consideration to the possibility of renewed negotiations on the basis of the Soviet Berlin proposals which would, presumably, be the only basis upon which negotiations could be reopened. The U.S.-Berlin position will, in the meantime, be maintained and all efforts will be made to prevent a deterioration of the status quo.

9. Tripartite consideration, in consultation with the Austrians, is being given to inscribing the Austrian item on the UNGA agenda this fall and to submitting to the UNGA a tripartite report on Western efforts to conclude an Austrian treaty in response to UNGA Resolution of December 1952. Aside from its propaganda value it is hoped that this action would serve to strengthen Austrian willingness to resist possible Soviet overtures to renew treaty negotiations or to engage in bilateral negotiations.

10. The Working Group on Austria believes that it would be preferable to leave until after the event as little as possible of the planning necessary to cope with the sort of situations envisaged in paragraphs 17f, g and h of the Courses of Action. It has, therefore, agreed upon the study described in paragraphs 17f, g and h infra. It remains a question as to how much useful advanced planning is possible, but it is believed worthwhile to examine the specific situations that might arise and at least to attempt to plan to meet them. The decision to undertake this study does not imply that the Working Group foresees any early Soviet action to partition Austria, blockade Vienna, or make illegal use of armed force. Such actions, however, are always possible and the Soviet behavior mentioned in 17a (5) infra could have represented initial steps toward partition.

11. Notwithstanding the progress that has been made in building up the Austrian gendarmerie, the problem of the defense of Austria against full-scale Soviet attack, the maintenance of the U.S. position in this area, and the protection and support of the southern flank of NATO is a matter of continuing concern. The long-awaited settlement of the Trieste situation and the development of the Balkan Pact, consistent with U.S. and NATO planning, can contribute substantially to easing this concern but until this planning is more

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fully developed, the need for adequate security in the area, particularly in the light of the unilateral British and French withdrawals late last year, remains critical.

D. EXTENT OF AGENCY INTERESTS

12. No other executive department or agency has had a significant role or interest in the activities of the Working Group.

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ANNEX "A"

DETAILED DEVELOPMENT OF MAJOR ACTIONS

Para. 16 a. "Continue efforts to conclude a four power treaty providing for the reestablishment of Austria's freedom and independence."

The U.S. has continued its efforts to conclude a treaty. The Berlin Conference in February 1954 failed to reach agreement on an Austrian state treaty. The failure occurred despite an offer by the Western powers to accept the Soviet versions of the five unagreed Articles and of one that had been previously agreed but reopened by the Soviets. The Western offer also included acceptance of the Soviet proposal to modify Article 35 to authorize payment by Austria in goods instead of dollars the payment provided thereunder. The Soviet Foreign Minister brushed aside the offer of the West and added new, unacceptable demands based on the charge that Austria needed to be protected against another Anschluss. The demands were for (1) retention of occupation forces in the respective zones after a treaty and until there has been a settlement on Germany, i.e., indefinitely; (2) withdrawal of occupation forces from Vienna; and (3) Austria's neutralization (see paragraph 16 d. below).

The Soviet proposals were rejected both by the Austrians and the West. The Austrian delegation did make its own declaration that it would not enter into any military alliance and offered to fix the troop withdrawal date at June 30, 1955. The only concession made by the Soviets was in response to a plea from the Austrian Foreign Minister -- an offer to accept \$150 million in goods instead of dollars as the present Article 35 of the draft treaty provides.

At the end of the conference the West withdrew its offer to accept the Soviet versions of the unagreed Articles and issued a communique on February 19 stating that the three powers intended to continue their efforts to conclude a treaty, but that progress depended upon an indication of Soviet willingness to withdraw troops upon conclusion of the treaty. The three governments promised to seek means of further alleviating occupation burdens in Austria.

Since the conclusion of the conference Soviet propaganda has continued to promote a treaty on the basis of the foregoing Soviet proposals. In its notes of July 24 the Soviet Government proposed to the three Western powers the convening of a conference on European security which the Soviets maintained could facilitate, among other things, a solution of the Austrian problem. This move is taken to indicate that Soviet policy on Austria remains as intransigent as in the past and that there is no reason to anticipate an Austrian treaty in the near future.

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Para. 16 b. Propaganda exploiting Soviet intransigence on Austrian treaty.

The Information Agency continues to exploit, through every media and resource, Soviet intransigence while emphasizing positive steps taken by the U.S. to alleviate occupation burdens and controls.

USIS continues: (1) operation of the Red-White-Red station in Vienna and provides other stations with VOA relay and package programs; (2) the publication of the Wiener Kurier, a German language newspaper with an average circulation of approximately 150,000; (3) press, wire, and photo services; (4) information center, exhibit, library and film programs. All of these programs are integrated so as to give full expression to any activity or project on short notice.

The Soviet refusal to accept the Austrian proposal for an Ad Hoc Committee offers an opportunity again to show that Soviet intentions are counter to Austria's interests. The Soviet note, however, suggests that the West is obstructing conclusion of a treaty. This position requires refutation by showing that the only obstacle to conclusion of a treaty is Soviet unwillingness to withdraw occupation forces.

Consideration is currently being given to the possibility of submitting a tripartite report to the UN on the UNGA Resolution of December 1952 and to the further possibility of inscribing the Austrian question on the agenda of the UNGA for the session beginning in the fall of 1954. Both matters are being discussed with the British, French and Austrians. The primary purposes of either move would be to take advantage of Soviet intransigence to enhance the propaganda position of the West and to strengthen the willingness of the Austrians to reject possible Soviet overtures to negotiate a treaty on the basis of the Soviet Berlin proposals or to engage in bilateral negotiations unfavorable to the West.

Para. 16 c. Discourage bilateral negotiations between Soviets and Austria.

The United States, in concert with the British and French, were in constant communication with Austrian representatives both prior to and during the Berlin Conference, with a view to coordinating our

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respective positions. Austrian representatives were very cooperative and gave no evidence that they were dealing separately with the Soviets. Efforts to discourage bilateral negotiations between the Austrians and Soviets in a manner detrimental to Western interests are continuing (see 17a(1) below)

Para. 16 d. Resist the neutralization of Austria as contrary to U. S. interest.

At Berlin, the Soviets proposed a new Article for inclusion in the treaty, Article 4-bis. Under this proposal Austria would undertake (a) not to enter into any coalition or military alliance directed against any power which participated with its armed forces in the war against Germany and in the liberation of Austria, (b) not to permit the establishment on its territory of foreign military bases, and (c) not to permit the use of foreign military instructors and specialists in Austria. This Soviet proposal was rejected by the Western powers and by the Austrian Government as incompatible with Austrian sovereignty. The U.S. continues to discourage any tendencies toward neutralism. Despite Soviet counter tactics, Austria, with U.S. support, has continued its cooperation in Western European organizations. It has made considerable progress in establishing liaison with the Coal and Steel Community.

Para. 16 e. Favorable revision of the long draft treaty, especially on Soviet control of so-called "German assets" (Article 35)

In close coordination with the Western powers, the Austrian representative at Berlin made a strong plea for revision of the economic clauses of the treaty, in particular Article 35. This plea was supported by the Western powers and led to a Soviet proposal to revise Article 35 to provide for the payment by Austria to the Soviet Union of \$150 million in the form of goods instead of dollars over a 6-year period. The designation and quantity of goods to be delivered would be specified in a supplementary agreement between the Soviet and Austrian Governments. Although on its face this represented, to a degree, some Soviet concession with respect to this Article of the treaty, which the West offered to accept as part of its Berlin offer on the treaty (see paragraph 16 a.), the terms thereof and the fact that it was linked to other unacceptable Soviet proposals including one which would have weakened the Austrian bargaining position by leaving the Austrian Government in Vienna surrounded by Soviet occupation forces with Western forces withdrawn from Vienna and Allied Control machinery abolished, make Soviet motives questionable.

Para. 17 a. Efforts to obtain alleviation of Soviet burdens and pressures on Austria.

(1) In the tripartite communique issued on February 19 following Berlin (see paragraph 16a. above), the Governments of the U.S., U.K. and France stated that "they will continue

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to seek every means of lightening the burden of occupation on Austria". In furtherance of this commitment, the three Western Governments have been in consultation with the Austrian Government with a view to establishing on Austrian initiative, a committee to sit in Vienna composed of the Ambassadors of each of the occupying powers and a representative of the Austrian Government to consider problems relating to relieving Austria's occupation burdens. Austrian notes proposing such a committee were delivered to the Governments of each of the four occupying powers on July 22. The Western Governments accepted the Austrian proposal on the understanding that the committee would not be competent to negotiate a treaty and that the validity of existing four power agreements would not be affected. This Austrian proposal was rejected by the Soviet Government on August 12. The Soviets proposed instead that the committee in Vienna be established to resume negotiations on the Austrian treaty and to examine "other questions related to the conclusion of this treaty.

(2) An appropriation of \$1,000,000 was made at the last session of Congress for the construction of dependents' housing in Vienna. The construction of this housing will permit the U. S. to return to Austrian control, premises presently rented under requisition by the Embassy.

(3) The U.S. has agreed in principle to an increase in the transportation rates being paid in Austria. Negotiations are currently being conducted with Austrian officials on this subject.

(4) The Linz and Salzburg radio stations of the Red-White-Red network were turned over to the Austrian Government on March 15, 1954, for operation as part of the Austrian Government's radio network. The U.S. continues to operate its radio station in Vienna.

(5) On May 17 the Austrian Chancellor and Vice Chancellor were summoned to the office of the Soviet High Commissioner (Ilyichev) where Ilyichev read to them a long indictment accusing the Austrian Government of hostile and anti-Soviet acts. The Soviet statement concluded with the warning that the Soviets would act unilaterally if the Austrians failed to take adequate measures. In the belief that firm Western action was called for, the Secretary of State, after consultations with the British and French, issued public instructions to the Acting U.S. High Commissioner on May 20 condemning the Soviet action and directing him to bring the matter before the Allied Council at its next meeting. The matter was raised at the May 28 meeting of the Allied Council and the Soviet charges refuted by the

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U.S., U.K. and French representatives. Recent Soviet actions tend to confirm the belief that the Secretary's statement had a salutary effect and that the Soviets did not intend to develop the controversy to major proportions. On two occasions in June the Soviets reestablished check points (withdrawn in the summer of 1953) at several places along the boundary of the Soviet zone. In each instance the Soviet guards were withdrawn the same day. The Soviet explanation was that they were searching for anti-Soviet leaflets and they have announced the arrest of four Austrians charged with distributing leaflets. The Soviets have also stopped several groups of German tourists in the Soviet zone of Austria on the ground that they did not have Austrian visas (the Austrian Government has waived the requirement of visas for visiting Germans but the Soviets refuse to recognize this agreement). Although precise Soviet objectives cannot be determined, available evidence tends to indicate that, aside from their desire to stop the distribution of anti-Soviet leaflets, Soviet actions are perhaps aimed at reclaiming some of the prestige lost at the Berlin Conference and at impressing upon the Austrians that the Soviets as occupiers are still the masters in their zone. There is no evidence that a partition of Austria is contemplated.

Para. 17 b. The promotion of a free and competitive economy.

(1) Little progress in implementing the \$10 million local currency productivity program provided for in the so-called Moody Amendment (section 115 (k) program) was made in the period under review. The deadlock among labor, management, and government over the conditions under which plant level demonstration projects would be conducted, which had stalled progress during 1953, was finally broken in January 1954 with agreement on the precise wording of agreements which will govern operations. In spite of formal agreement, relations among the different groups are not entirely smooth, and some sentiment in the Austrian Government's Section for Economic Coordination still favors operation of the program as a conventional small loan program with no obligations or efforts to share benefits with labor and consumers. The FOA Mission reports that considerable progress has been made in recent months in convincing the leadership of the Section for Economic Coordination that a genuine plant level program should go forward, but as yet only one project has been implemented. However, considerable preparation has been made for the implementation of a number of important demonstration projects in the consumer goods industries during the coming year.

(2) The U.S. Technical Exchange Program in Austria encountered serious obstacles during the last half of 1953 as a result of

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disagreement among labor, management, and government on local currency financing of projects. No new projects were originated between October 1953 and February 1954 when a compromise was finally reached. As a result of the long period of inactivity, the total number of projects executed during the first half of 1954 was considerably below original expectations. A Technical Exchange budget for FY 55 which is considerably smaller than that for the previous year is contemplated but is at present awaiting decision on the availability of any new funds for the European Technical Exchange Program in FY '55. However, as a result of delays in implementing FY 54 projects it is expected that there will be greater activity during the next year. Emphasis of the Technical Exchange Program is being increasingly shifted away from rationalization and directed toward changing basic attitudes and ideas about productivity which in the long run may provide a substantial basis for improvement.

(3) Considerable interest has been demonstrated recently in Austria for participation in the activities of the European Productivity Agency which has the objective of fostering the growth of intra-European cooperation and exchange in the productivity field. It is expected that Austria will participate in about 60% of all EPA activities during the coming year.

Para 17c. Reduction of barriers to Austria's international trade with free countries.

Austria has made very rapid progress in liberalization (elimination of quantitative import restrictions) with the EPU area during the past six months. Liberalization, based on the level of imports in 1952, was increased from 50% at the end of 1953 to 75% in June 1954. It was expected that further progress would be difficult because a large share of goods remaining on quota restrictions are strategic. However, new strategic trade control enforcement procedures have recently been worked out with Austria, which, if successful, will permit liberalization of most of the goods remaining on the strategic lists. In addition, the impending revision of international strategic trade control lists should provide scope for further liberalization without prejudice to security considerations. The Austrian Government has indicated its willingness to proceed with further liberalization as soon as strategic factors are satisfactorily resolved.

Prospects for dollar liberalization remain dim. With the exception of a possible token liberalization during the Fall, no substantial moves toward freeing dollar imports are expected without wider negotiations within the framework of the GATT.

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Para. 17 d. The requirements of Austria for economic assistance.

As a result of the rapid improvement in Austria's economic situation no economic assistance was allotted in FY '54, nor is any currently planned for FY '55. The aid pipeline from previous allotments currently amounts to approximately \$5 million and is expected to be entirely exhausted by December 1954.

The Danubian flood in July caused at least \$11 million worth of agricultural damage and comparable damage to homes, industry and communications. In order to assist, the U.S. Government (1) provided emergency assistance in both manpower and equipment from U.S. forces in Austria; (2) released through the Acting U.S. High Commissioner emergency stocks of food; and (3) offered to Austria, along with other affected countries, supplies of surplus commodities in accordance with Public Law 472. This offer was accepted and a Presidential determination has been made to make available to Austria about \$1.5 million worth of surplus agricultural commodities.

Para. 17 e. Four Power troop withdrawal in advance of a treaty.

Since Berlin it has been apparent that the Soviets have no intention of withdrawing their occupation forces from Austria in the foreseeable future. Austrian periodic public statements concerning the desirability of troop withdrawals are made, therefore, for propaganda purposes only and the Austrians themselves recognize that their demands will not be granted. No reduction of U.S. forces is contemplated. There has been no known decrease in Soviet forces now estimated at approximately 42,000.

Paras. 17 f, g, h. Efforts to forestall Soviet action to partition Austria, action to be taken in event illegal Soviet use of armed forces or blockade of Vienna.

A Department of State study is currently under way of the forms Soviet action might take and of the psychological impact, the political consequences and the legal, economic, military, refugee, propaganda, NATO, EDC and tripartite implications thereof. Following the completion of this study, which will be coordinated with other Agencies, the preparation of plans to meet the contingencies outlined therein will be undertaken.

Para. 18 a. Insure that Austrian internal security forces are reasonably adequate in the pre-treaty period.

This action has been pursued as reflected specifically in e. below. It is considered that Austrian internal security forces are now reasonably adequate.

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Para 18 b. Insure, prior to the withdrawal of occupation forces, that Austrian armed forces are reasonably adequate to maintain internal security in the post-treaty period.

The existing equipment program has been completed to the limit authorized and planning for the creation of the additional forces is continuing as reflected specifically in e. below.

Para. 18 c. Utilization of Austrian manpower and other measures to increase effectiveness of Austrian forces and facilitate organization of an Austrian army in the event of war.

Following extended discussions with the reluctant British and French, agreement was finally reached on the terms of an approach to the Austrians on the subject of the effective use of Austrian manpower in the event of a major emergency prior to the coming into effect of an Austrian treaty. The approach was made in the form of an oral communication to the Chancellor and Vice Chancellor at a meeting with the three Western High Commissioners on June 11, 1954. The following points were included in this oral communication.

(1) The Western powers do not contemplate, prior to an emergency, the mobilization of Austrian manpower, the formation or training of units, or the distribution of arms (development of an effective gendarmerie is a separate matter not considered a part of this program).

(2) Elements of the Austrian special gendarmerie would, under emergency conditions, be operationally incorporated initially with British, French and U.S. forces in Austria.

(3) Additional Austrian personnel initially mobilized under emergency conditions would be made available, insofar as they could be used effectively, for service with British, French and U.S. forces, or with the special gendarmerie, or in other ways, as may be determined by the Allied Commanders concerned.

(4) Registration of Austrian personnel for such emergency use would remain an Austrian responsibility under the general auspices of the Salzburg Committee.

(5) The Austrian Government would assume legal and practical responsibility for measures of mobilization.

(6) Allied Forces would not be utilized to enforce Austrian conscription.

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(7) The Austrian Government would not be expected to equip and support logistically Austrians serving with Allied Forces.

(8) Pay, pensions and personnel benefits to Austrians wherever serving would be the responsibility of the Austrian authorities.

The Austrian reaction to the foregoing Western proposal has not yet been received.

Para. 18 d. Retention of Western garrisons in Austria.

The U.S. garrison has maintained previously authorized strength and there has been no further reduction in British and French forces. The planning strength of the Department of Army for USFA during FY 1955 and 1956 is approximately 19,000. This strength figure is predicated on the assumption that Trust Forces will be deployed to Austria. The present authorized strength for use of USFA is 15,000.

With the approval of the British, French, and U.S. Governments, their respective forces in Austria are allocated to SACEUR as a Command subordinate to CINCSOUTH for war planning in peacetime and operational control in event of an emergency. These forces are grouped together as Allied Forces Austria and CGUSFA is designated Commander of these forces for operations under CINCSOUTH.

Further consideration of these forces in defense plans relating to Southern Europe has been made, but no decision has been reached, pending settlement of the Trieste dispute and the related development of the Balkan Pact.

Para. 18 e. Planning and equipment for additional pre-treaty Austrian forces.

(1) This planning has proceeded and tripartite agreement with the Austrian Government has been reached on increased Austrian strength. Current strength of the Special Gendarmerie is 5,700 which is an increase of approximately 600 during the period. The objective is to reach authorized strength of 8,500 during FY 1955. These forces are organized into nine (9) Infantry Battalions and one (1) Engineer Battalion.

(2) The British and French have opposed training of selected individuals of the Special Gendarmerie in the use of infantry heavy weapons. Their objection is based upon fear of Soviet retaliation to such action, which they consider may cause the partitioning of Austria. The U.S. feels that training is essential in the interest of efficiency. Tripartite agreement is being sought at Governmental level.

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Paras. 19 and 20. Tripartite declaration at time of troop withdrawal and commitments from Austria on her post-treaty forces.

In view of the unlikelihood of conclusion of a treaty or withdrawal of occupation troops in the near future, no further action is being taken at the present time to seek agreement on the form of a tripartite declaration, or to seek Austrian agreement for the maintenance of military forces (prohibited by four power agreement at the present time).

Para. 21. Seek Austrian agreement to cooperate in Western defense efforts in event of war.

See paragraph 18 c. above.

Finalization of planning for the utilization of Austrian manpower in the event of war should serve as a basis for developing a formal Austrian commitment on their intentions regarding post-treaty forces and cooperation in the event of war.

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